

MARYLAND  
BOARD OF PUBLIC WORKS

Governor Treasurer Comptroller

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*Executive Secretary*

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*Wetlands Administrator*

February 14, 2018

The Honorable Thomas V. Mike Miller, Jr.  
The Honorable Michael E. Busch  
Legislative Policy Committee  
Legislative Services Building, Room 200B  
90 State Circle  
Annapolis, Maryland 21401-1991

RE: Report on Veteran-Owned Small Business Participation for FY 2017

Dear Mr. President and Mr. Speaker:

In accordance with State Finance and Procurement Article, §14-604, Annotated Code of Maryland, the Board of Public Works is submitting the fiscal year 2017 report on veteran-owned small business participation.

Sincerely,



Gabriel Gnall  
Procurement Advisor

CC: The Honorable Lawrence J. Hogan, Jr.  
The Honorable Nancy K. Kopp  
The Honorable Peter Franchot  
Sheila McDonald, Executive Secretary  
Sarah Albert, Legislative Services  
Enoch Pratt Free Library

STATE OF MARYLAND

# Board of Public Works

GOVERNOR • TREASURER • COMPTROLLER

Report to the Legislative Policy Committee  
on the Operations and Effectiveness of the

# Veteran-Owned Small Business Program



## Fiscal Year 2017

February 2018  
Treasury Bldg, Room 117  
80 Calvert Street  
Annapolis, Maryland 21401

As required by State Finance & Procurement Article  
Section 14-604, Annotated Code of Maryland

**REPORT TO THE LEGISLATIVE POLICY COMMITTEE  
ON  
VETERAN-OWNED SMALL BUSINESS PARTICIPATION  
FISCAL YEAR 2017**

AS REQUIRED BY  
STATE FINANCE & PROCUREMENT ARTICLE  
SECTION 14-604,  
ANNOTATED CODE OF MARYLAND

FEBRUARY 2018

Board of Public Works of Maryland  
Sheila McDonald, Executive Secretary  
Gabriel Gnall, Procurement Advisor  
Louis L. Goldstein Treasury Building  
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## EXECUTIVE SUMMARY

Maryland's Veteran-Owned Small Business Program enhances opportunities for veteran-owned small businesses and service-disabled veteran-owned small businesses to participate in State procurements.<sup>1</sup> State agencies must structure their procurements to annually spend – directly or indirectly – at least 1% of their total dollar value of procurement contracts with veteran-owned small business enterprises.<sup>2</sup> To qualify for participation, a veteran-owned small business must be verified by United States Department of Veteran Affairs Center for Verification and Evaluation which maintains a directory of verified businesses. However, the requirements for participation will change effective October 1, 2018, no longer requiring veteran-owned businesses to be verified by the Center for Verification and Evaluation.<sup>3</sup>

The Board of Public Works compiles annual reports from each agency and reports statewide progress to the Legislative Policy Committee. Fiscal year 2017 is the Program's fifth reporting year. Key findings are:

- Most agencies found it difficult to meet the State's goal of 1%. Veteran-owned small business participation for fiscal year 2017 is 0.49% – approximately half of the statewide goal. However, participation for fiscal year 2017 reflects an increase of .25% over the 0.24% participation rate in fiscal year 2016.
- Five agencies exceeded the State's 1% participation goal in FY 2017:
  - Department of General Services 4.41%
  - Maryland Transportation Authority 3.66%
  - Maryland Department of Aging 2.34%
  - Maryland State Retirement Agency 1.97%
  - Department of Budget and Management 1.62%
- One agency with more than two billion dollars in annual contract awards – the State Highway Administration – reported only 0.02% veteran-owned small business participation for fiscal year 2017.
- Previous reports have recommended that the Program's effectiveness may be improved if a single agency were designated to oversee the Program; marketing efforts increased, and agency training/awareness heightened. While the Department of Veterans Affairs has agreed to provide assistance with vendor

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<sup>1</sup> Chapters 507 and 508 (Laws of 2010); §§ 14-601—14-606, State Finance & Procurement Article, Annotated Code of Maryland.

<sup>2</sup> Chapters 343 and 344 (Laws of 2015), effective October 1, 2015, increased the goal from 0.5% to 1%.

<sup>3</sup> Chapter 708 (Laws of 2017), effective May 25, 2017, revised §14-601 and added §14-606, State Finance & Procurement Article, Annotated Code of Maryland.

outreach and has made efforts to improve agency training/awareness of the Program, this recommendation stands.

## **I. Veteran Owned Small Business Program**

The Veteran-Owned Small Business Program, enacted in 2010, requires State agencies to try to expend a minimum of 1% of the total dollar value of agency procurement contracts directly or indirectly on veteran-owned small businesses.<sup>4</sup> Veteran-owned small businesses status is currently verified by the U.S. Department of Veterans Affairs, but as noted, above effective October 1, 2018, such verification will no longer be required.<sup>5</sup>

### *Who Qualifies as a Veteran Owned Small Business/Disabled Veteran-Owned Business?*

The Program criteria to qualify as a veteran-owned small business or a service disabled veteran-owned small business are:

- Business is owned by a veteran or service-disabled veteran as determined by the U.S. Department of Veterans Affairs or the U.S. Department of Defense.
- Veteran has unconditional direct ownership of at least 51% of the business.
- Business is classified as “small” under the North American Industry Classification System (NAICS) code assigned to the procurement.
- Veteran holds the highest officer position and is the highest paid employee unless there is a reasonable explanation submitted by the veteran as to how taking a lower salary than other employees helps the business.
- Veteran manages the company on both a strategic policy and a day-to-day basis.
- Veteran has managerial experience of extent and complexity needed to run company.<sup>6</sup>

More than 13,245 verified veteran-owned small businesses are listed in the U.S. Department of Veterans Affairs directory (the VetBiz Directory).<sup>7</sup> More than 700 verified businesses are located in Maryland.

### *Scope of Report*

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<sup>4</sup>The Veteran-Owned Small Business Program is independent of the long-standing Small Business Preference Program. The latter program also benefits veteran-owned businesses by establishing a price preference of up to 8% for veteran-owned and service-disabled, veteran-owned small businesses. State Finance & Procurement Article, §14-206, Annotated Code of Maryland.

<sup>5</sup> Chapter 708 (Laws of 2017), effective May 25, 2017, revised §14-601 and added §14-606, State Finance & Procurement Article, Annotated Code of Maryland.

<sup>6</sup> 38 C.F.R. Part 74.

<sup>7</sup> U.S. Department of Veterans Affairs, Vendor Information Database January 5, 2018). The federal database lists approximately 4,065 more firms than the database listed this time last year. <https://www.vip.vetbiz.gov/>

The Board of Public Works must annually collect compliance reports from each State procurement agency and report to the Legislative Policy Committee on the amount of contracts awarded to veteran-owned small business and on the effectiveness of the program.<sup>8</sup> Agencies that are exempt from the State Procurement Law, such as the University System, are exempt from the Program and do not report their data to the Board.

## II. VSBE Awards Reported by Agency (FY 2017)

Agency	Total \$ All Procurement Contracts Awarded	Total \$ VSBE Prime Contracts Awarded	Total \$ VSBE Subcontracts Awarded	VSBE Participation %*
Aging (MDOA)	\$2,982,829.00	\$69,655.00	\$0.00	2.34%
Agriculture (MDA)	\$3,927,560.00	\$0.00	\$0.00	0.00%
Assessments & Taxation (SDAT)	\$471,984.00	\$0.00	\$0.00	0.00%
Attorney General (OAG)	\$4,749,660.00	\$1,212.00	\$0.00	0.03%
Baltimore City Community College	\$8,133,430.00	\$0.00	\$0.00	0.00%
Budget & Management (DBM)	\$110,000,499.00	\$0.00	\$1,784,294.00	1.62%
Department of Commerce	\$28,503,166.00	\$0.00	\$0.00	0.00%
College Savings Plans of MD (CSPM)	\$19,228,179.00	\$0.00	\$0.00	0.00%
Comptroller (COMP)	\$21,945,100.00	\$293.00	\$81,957.00	0.37%
Education (MSDE)	\$72,090,524	\$0.00	\$84,621.00	0.12%
Environment (MDE) Non- Responsive				
Governor's Office/Executive Department (EXEC)	\$4,407,396.00	\$0.00	\$0.00	0.00%
General Services (DGS)	\$235,277,633.00	\$6,802,497.00	\$3,584,753.00	4.41%

<sup>8</sup> State Finance & Procurement Article, §14-604, Annotated Code of Maryland. The Law was effective July 1, 2012.

<b>Department of Health</b>	\$296,904,301.00	\$56,881.00	\$96,384.00	0.05%
<b>Higher Education Commission (MHEC)</b>	\$3,574,610.00	\$0.00	\$0.00	0.00%
<b>Housing &amp; Community Development (DHCD)</b>	\$44,487,869.00	\$0.00	\$190,546.00	0.43%
<b>Human Resources (DHR)</b>	\$472,686,978.00	\$281,013.00	\$0.00	0.06%
<b>Information Technology (DoIT)</b>	\$165,185,137.00	\$28,984.00	\$406,645.00	0.26%
<b>Juvenile Services (DJS)</b>	\$228,406,715.00	\$140,223.00	\$0.00	0.06%
<b>Labor, Licensing &amp; Regulation (DLLR)</b>	\$20,376,446.00	\$0.00	\$0.00	0.00%
<b>Food Center authority</b>	\$0.00	\$0.00	\$0.00	0.00%
<b>MD Insurance Administration (MIA)</b>	\$2,098,143.00	\$7,356.00	\$0.00	0.35%
<b>MD Lottery (MSLA)</b>	\$241,293,530.00	\$0.00	\$495,049.00	0.21%
<b>MD State Police (MDSP)</b>	\$24,150,934.00	\$19,283.00	\$1,090.00	0.08%
<b>MD Uninsured Employers Fund (UEF)</b>	\$0.00	\$0.00	\$0.00	0.00%
<b>MD Veteran's Affairs (MDVA)</b>	\$22,041,275.00	\$4,312.00	\$0.00	0.02%
<b>MD Institute for Emergency Medical Services Systems (MIEMSS)</b>	\$4,111,344.00	\$0.00	\$0.00	0.00%
<b>Military/Emergency Management Agency (DMIL/MEMA)</b>	\$663,604.00	\$5,127	\$0.00	0.77%
<b>Natural Resources (DNR)</b>	\$30,860,546.00	\$0.00	\$0.00	0.00%
<b>People's Counsel (OPC)</b>	\$1,531,611.00	\$0.00	\$0.00	0.00%

Planning (MDP)	\$1,500,650.00	\$0.00	\$0.00	0.00%
Public Safety and Correctional Services (DPSCS) (Division of Capital Constructions and Administration Combined)	\$88,181,111.00	\$462,839.00	\$0.00	0.53%
Public School Construction (IAC) <b>Non- Responsive</b>				
Public Service Commission (PSC)	\$1,102,486.00	\$0.00	\$0.00	0.00%
State Board Contract Appeals (MSBCA)	\$18,632,138.00	\$26,508.00	\$39,416.00	0.35%
State Board Elections (SBE)	\$14,646,949.00	\$0.00	\$110,526.00	0.75%
State Prosecutor (OSP)	\$511.00	\$0.00	\$0.00	0.00%
State Retirement (SRA)	\$1,974,892.00	\$38,931.00	\$0.00	1.97%
Transportation (MDOT): MD Aviation Administration (MAA)	\$351,146,919.00	\$0.00	\$867,934.00	0.25%
Transportation (MDOT): MD Transportation Authority (MDTA)	\$276,058,671.00	\$7,701,145.00	\$2,399,949	3.66%
Transportation (MDOT): MD Port Administration (MPA)	\$23,850,276.00	\$0.00	\$64,000.00	0.27%
Transportation (MDOT): MD Transit Administration (MTA)	\$258,092,101.00	\$0.00	\$43,715.00	0.02%
Transportation (MDOT): Motor Vehicle Administration (MVA)	\$28,547,861.00	\$5,863.00	\$58,060	0.22%

<b>Transportation (MDOT): State Highway Administration (SHA)</b>	\$2,005,892,611.00	\$0.00	\$356,387	0.02%
<b>Transportation (MDOT): Transportation Secretary's Office (TSO)</b>	\$159,647,845.00	\$20,490.00	\$0.00	0.01%
<b>Treasurer (STO)</b>	\$11,711,308.00	\$200.00	\$0.00	0.00%
<b>Workers' Compensation Commission (WCC)</b>	\$333,983.00	\$0.00	\$0.00	0.00%
<b>TOTALS</b>	<b>\$5,296,764,366</b>	<b>\$15,672,812</b>	<b>\$10,553,710</b>	<b>0.50%</b>

\* VSBE Participation % = (Total \$ VSBE Prime Contracts Awarded + Total \$ VSBE Subcontracts Awarded) / (Total \$ All Procurement Contracts Awarded).

### III. Program Effectiveness

Although the overall participation rate for fiscal year 2017 (0.50%) is up significantly from fiscal years 2015 (0.22%) and 2016 (0.24%), 50% of agencies reported 0% veteran business participation; which is consistent with fiscal year 2016. While the higher overall participation rate emphasizes that agencies have continued to make strides in increasing their participation rate year over year, many agencies still have not fully integrated veteran business goal-setting and outreach into their procurement operations. Agencies should be assessing opportunities for veteran business participation in each solicitation, just as they do with the Minority Business Enterprise (MBE) and Small Business Reserve (SBR) Programs.

Obstacles that continue to affect agencies' ability to obtain veteran business participation include:

- Businesses providing certain categories of work – such as social services – are underrepresented in the VetBiz Directory.<sup>9</sup>
- Insufficient training on best practices to implement the Program.

### IV. Recommendations to Improve Effectiveness

<sup>9</sup> The State faces similar challenges with few social services providers listed in the DGS directory of certified small businesses.

### *Designate a single agency to implement the Program*

The previous four years' reports recommended that a single Program oversight agency be designated to be responsible for auditing compliance, developing reporting mechanisms, training in use of the VetBiz Directory, and coordinating outreach activities. While the Department of Veterans Affairs has agreed to provide assistance with vendor outreach and has made efforts to improve agency training/awareness of the Program, the recommendation is offered again this year. A lead agency can track agency procurement activity and inform agency heads during the course of a year when their participation rates are unacceptable, so those agencies can take corrective action when it matters. As the VSBE program provides additional opportunities for small businesses and is structured and implemented very similarly to the MBE program, a likely candidate for such an oversight agency could be the Governor's Office of Small, Minority & Women Business Affairs that also oversees the MBE and SBR programs.

### *Explore strategies to increase veteran-owned small business participation*

- Some veteran-owned businesses are eligible to also participate in the State's other longstanding socioeconomic procurement programs – the Minority Business Enterprise Program and the Small Business Reserve. Agencies should encourage veteran-owned businesses to seek State certification as MBEs and small businesses to maximize business opportunities for those firms. Under the MBE Program, agencies seek to spend 29% of contracting dollars with certified MBEs.<sup>10</sup> In FY 2016, Maryland awarded more than \$1.6 billion in prime and subcontract awards to certified MBEs. Under the Small Business Reserve Program, procurement units must structure their procurements to ensure at least 15% of procurement dollars are expended directly with businesses certified by the State.<sup>11</sup> In FY 2016, the State made payments totaling more than \$301.7 million to Maryland-certified small businesses.<sup>12</sup>
- Encourage State buyers to use veteran-owned small businesses for small procurement awards that typically do not have subcontract goals.

### *Increase Marketing Efforts*

- Each agency website should include information on the Program.
- Veteran businesses should be encouraged to register on *eMaryland Marketplace* so they are notified of all State and local procurement opportunities.
- Agencies should coordinate with the Maryland Department of Veterans Affairs and Governor's Office of Small, Minority & Women Business Affairs to participate in

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<sup>10</sup> COMAR 21.11.03.01C(1)

<sup>11</sup> Chapter 438 (Laws of 2017), effective May 4, 2017, expanded the SBR Program and increased the SBR goal to 15%.; revised §§14-501 – 14-505, State Finance & Procurement Article, Annotated Code of Maryland,

<sup>12</sup> *FY 2016 Small Business Reserve Program Report*, Governor's Office of Small, Minority & Women Business Affairs

outreach events.

- The Procurement Advisor will continue to emphasize the importance of the Program at meetings of the Senior Procurement Advisors Group and the Procurement Advisory Council.<sup>13</sup>

## **V. Conclusion**

To improve the veteran-owned small business participation rate, State agencies must fully integrate veteran business goal-setting into their procurement operations as they do with the Minority Business Enterprise and Small Business Reserve Programs. Designating a lead agency that can enforce accountability and best practices will go far in bridging the gap between agency performance and the State's goal of increasing State contracting opportunities for veteran-owned small businesses.

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<sup>13</sup> The Procurement Advisory Council will change to the Procurement Improvement Council effective October 1, 2019; Chapter 590 (Laws of 2017), revised §12-105, State Finance & Procurement Article, Annotated Code of Maryland,